

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name: <u>Canton Public Library</u>	County Wayne
Audit Date December 31, 2005	Opinion Date March 3, 2006	Date Accountant Report Submitted To State: June 8, 2006	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address 27400 Northwestern Highway	City Southfield	State MI	ZIP 48034
Accountant Signature 			

Canton Public Library

Financial Report
December 31, 2005

Canton Public Library

Contents

Independent Auditor's Report	I
Basic Financial Statements	
Governmental Funds:	
Balance Sheet - Statement of Net Assets	2
Statement of Revenue, Expenditures, and Changes in Fund Balance -	
Statement of Activities	3
Budgetary Comparison Schedule - General Fund	4
Fiduciary Fund:	
Statement of Net Assets	5
Statement of Changes in Net Assets	5
Notes to Financial Statements	6-16



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Independent Auditor's Report

To the Canton Public Library Board
Canton Township, Michigan

We have audited the accompanying basic financial statements of Canton Public Library as of December 31, 2005 and for the year then ended, as listed in the table of contents. These financial statements are the responsibility of the Library's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of Canton Public Library as of December 31, 2005 and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements do not present a management's discussion and analysis, which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, in accordance with the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, although not required to be a part of, the basic financial statements.

Plante & Moran, PLLC

March 3, 2006



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Canton Public Library

Balance Sheet - Statement of Net Assets December 31, 2005

	General Fund	Endowment Fund - Permanent Fund	Total Governmental Funds Balance Sheet - Modified Accrual	Adjustments (Note 2)	Statement of Net Assets - Full Accrual
Assets					
Cash (Note 3)	\$ 1,432,256	\$ 118,569	\$ 1,550,825	\$ -	\$ 1,550,825
Receivables:					
Property taxes	4,935,660	-	4,935,660	-	4,935,660
Other	1,567	10,922	12,489	-	12,489
Other assets	27,020	-	27,020	-	27,020
Depreciable capital assets (Note 4)	-	-	-	10,553,480	10,553,480
Nondepreciable capital assets (Note 4)	-	-	-	67,500	67,500
Total assets	\$ 6,396,503	\$ 129,491	\$ 6,525,994	10,620,980	17,146,974
Liabilities					
Accounts payable and accrued liabilities	\$ 49,655	\$ -	\$ 49,655	-	49,655
Accrued interest payable	-	-	-	60,075	60,075
Deferred revenue	5,353,500	10,922	5,364,422	(10,922)	5,353,500
Noncurrent liabilities:					
Due within one year:					
Leases	-	-	-	274,018	274,018
Compensated absences	-	-	-	70,762	70,762
Due in more than one year - Leases	-	-	-	5,218,267	5,218,267
Total liabilities	5,403,155	10,922	5,414,077	5,612,200	11,026,277
Fund Balances					
Reserved for endowment	-	96,889	96,889	(96,889)	-
Fund balances - Unreserved	993,348	21,680	1,015,028	(1,015,028)	-
Total fund balances	993,348	118,569	1,111,917	(1,111,917)	-
Total liabilities and fund balances	\$ 6,396,503	\$ 129,491	\$ 6,525,994		
Net Assets					
Investment in capital assets - Net of related debt				5,128,695	5,128,695
Restricted for endowment				96,889	96,889
Unrestricted				895,113	895,113
Total net assets				\$ 6,120,697	\$ 6,120,697

Canton Public Library

Statement of Revenue, Expenditures, and Changes in Fund Balance - Statement of Activities Year Ended December 31, 2005

		Endowment	Total Governmental Funds		
	General Fund	Fund - Permanent Fund	Revenues and Expenditures - Modified Accrual	Adjustments (Note 2)	Statement of Activities - Full Accrual
Revenue					
Property tax	\$ 4,927,116	\$ -	\$ 4,927,116	\$ -	\$ 4,927,116
State aid	66,411	-	66,411	-	66,411
Fines	201,663	-	201,663	-	201,663
Fees	54,939	-	54,939	-	54,939
Interest on investments	78,265	2,409	80,674	-	80,674
Contributions and donations	54,318	56,501	110,819	(4,140)	106,679
Revenue sharing	3,513	-	3,513	-	3,513
Rentals	6,650	-	6,650	-	6,650
Total revenue	5,392,875	58,910	5,451,785	(4,140)	5,447,645
Expenditures					
Salaries	2,130,215	-	2,130,215	5,656	2,135,871
Fringe benefits	395,341	-	395,341	-	395,341
Supplies	164,607	-	164,607	(10,718)	153,889
Library books and materials	706,313	-	706,313	(468,047)	238,266
Professional and contractual services	333,159	-	333,159	(77,627)	255,532
Communications	75,509	-	75,509	(250)	75,259
Conferences, workshops, and travel	27,742	-	27,742	-	27,742
Community relations	9,392	-	9,392	-	9,392
Printing and publishing	56,560	-	56,560	-	56,560
Insurance and bonds	83,672	-	83,672	-	83,672
Utilities	193,771	-	193,771	-	193,771
Building repair and maintenance	99,447	-	99,447	-	99,447
Rentals	29,982	-	29,982	(3,041)	26,941
Building improvements	83,300	-	83,300	(15,607)	67,693
Capital outlay	96,740	-	96,740	(58,789)	37,951
Property tax refund	19,350	-	19,350	-	19,350
Debt service/Interest on long-term debt	672,249	-	672,249	(325,346)	346,903
Loss on sale of assets	-	-	-	5,230	5,230
Depreciation	-	-	-	1,240,714	1,240,714
Total expenditures	5,177,349	-	5,177,349	292,175	5,469,524
Excess of Revenue Over (Under) Expenditures	215,526	58,910	274,436	(296,315)	(21,879)
Fund Balance/Net Assets - Beginning of year	777,822	59,659	837,481	5,305,095	6,142,576
Fund Balance/Net Assets - End of year	<u>\$ 993,348</u>	<u>\$ 118,569</u>	<u>\$ 1,111,917</u>	<u>\$ 5,008,780</u>	<u>\$ 6,120,697</u>

Canton Public Library

Budgetary Comparison Schedule - General Fund Year Ended December 31, 2005

	Modified Accrual			
	Originally			
	Adopted	Amended	Actual	Variance
	Budget	Budget		
Revenue				
Property tax	\$ 4,861,790	\$ 4,906,197	\$ 4,927,116	\$ 20,919
State aid	66,526	66,411	66,411	-
Fines	180,000	193,000	201,663	8,663
Fees	44,700	50,500	54,939	4,439
Interest on investments	40,000	76,000	78,265	2,265
Contributions and donations	30,000	54,100	54,318	218
Revenue sharing	3,513	3,513	3,513	-
Rentals	-	6,000	6,650	650
Total revenue	5,226,529	5,355,721	5,392,875	37,154
Expenditures				
Salaries	2,153,925	2,153,925	2,130,215	23,710
Fringe benefits	431,536	433,936	395,341	38,595
Supplies	217,900	203,000	164,607	38,393
Library books and materials	711,514	708,971	706,313	2,658
Professional and contractual services	310,880	357,457	333,159	24,298
Communications	70,000	78,000	75,509	2,491
Conferences, workshops, and travel	32,300	29,000	27,742	1,258
Community relations	10,000	10,000	9,392	608
Printing and publishing	63,000	60,000	56,560	3,440
Insurance and bonds	81,000	83,909	83,672	237
Utilities	196,500	196,500	193,771	2,729
Building repair and maintenance	92,690	100,000	99,447	553
Rentals	30,000	30,000	29,982	18
Building improvements	-	83,300	83,300	-
Capital outlay	90,667	98,609	96,740	1,869
Property tax refund	5,000	20,000	19,350	650
Debt service	561,625	672,249	672,249	-
Total expenditures	5,058,537	5,318,856	5,177,349	141,507
Excess of Revenue Over Expenditures	167,992	36,865	215,526	178,661
Fund Balance - Beginning of year	777,822	777,822	777,822	-
Fund Balance - End of year	<u>\$ 945,814</u>	<u>\$ 814,687</u>	<u>\$ 993,348</u>	<u>\$ 178,661</u>

Canton Public Library

Fiduciary Fund Statement of Net Assets December 31, 2005

	Postemployment Benefits Fund
Assets - Cash and cash equivalents (Note 3)	\$ -
Net Assets - Held in trust for pension and other employee benefits	\$ -

Fiduciary Fund Statement of Changes in Net Assets Year Ended December 31, 2005

	Postemployment Benefits Fund
Additions	
Contributions	\$ 50,000
Investment income - Interest and dividends	1,895
Total additions	51,895
Deductions - Transfer to MERS	202,851
Net Decrease	(150,956)
Nets Assets Held in Trust for Postemployment Benefits	
Beginning of year	150,956
End of year	\$ -

Canton Public Library

Notes to Financial Statements Year Ended December 31, 2005

Note 1 - Summary of Significant Accounting Policies

Canton Public Library (the "Library") is governed by a six-member board of trustees.

The accounting policies of Canton Public Library conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the Library:

Reporting Entity

The accompanying financial statements have been prepared in accordance with criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. Based on the significance of any operational or financial relationships with the Library, there are no component units to be included in these financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Library reports the following governmental funds:

General Fund - The General Fund contains the records of the ordinary activities of the Library that are not accounted for in another fund. General Fund activities are financed by revenue from the general property taxes, penal fines, state-shared revenue, and other sources.

Endowment Fund - The Endowment Fund accounts for gifts and donations given to the Library. The majority of these items are restricted for specific purposes by the donor.

The Funds are budgeted and accounted for using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Library considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences and debt service expenditures are recorded only when payment is due.

Canton Public Library

Notes to Financial Statements Year Ended December 31, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

In addition to presenting information for the General Fund on the modified accrual basis (as budgeted), the financial statements present information for the Library using the economic resources measurement focus and the accrual basis of accounting. This information is intended to demonstrate the degree to which taxpayers have funded the full cost of services received. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both modified accrual and full accrual columns, to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Library has elected not to follow private sector standards issued after November 30, 1989 for its full accrual presentation.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits - The Library considers all highly liquid investments purchased with an original maturity of three months or less to be cash equivalents.

Capital Assets - Capital assets are defined by the Library as assets with an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Building improvements, furniture and fixtures, equipment, and library books, periodicals, etc. are depreciated using the straight-line method over the following useful lives:

Building, fixtures, and improvements	50 years
Furniture and equipment	3-10 years
Library books, periodicals, etc.	7 years

Compensated Absences (Vacation Leave) - It is the Library's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. All vacation and sick pay is accrued when incurred in the government-wide financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

Canton Public Library

Notes to Financial Statements Year Ended December 31, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

Property Taxes - Properties are assessed as of December 31. The taxes are billed and become a lien on December 1 of the following year; they are due on February 14 with the final collection date of February 28 before they are added to the county tax rolls.

Property taxes billed during the month of December will be used to finance the following year's operations. As such, these taxes billed during December are included in deferred revenue.

The property taxes for the Library are assessed to the residents of Canton Township. The 2004 taxable valuation of the Library totaled approximately \$3,257 million on which taxes levied consisted of 1.5331 mills for Library operating purposes. This resulted in approximately \$4.9 million for operating, which is recorded in the General Fund.

Pledges - Contributions to the Endowment Fund are recorded when received in the fund statements. A receivable and revenue are recorded in the government-wide statements when pledges of future contributions are received.

Canton Public Library

Notes to Financial Statements Year Ended December 31, 2005

Note 2 - Reconciliation of Government-wide and Fund Financial Statements

As discussed in Note 1, the governmental funds are presented on the modified accrual basis of accounting, and the Library as a whole is also presented on the full accrual basis. The following is a reconciliation of fund balance on the modified accrual basis of accounting to net assets presented on the full accrual basis:

Total Fund Balances for Governmental Funds	\$ 1,111,917
Amounts reported for governmental activities in the statement of net assets are different because:	
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(5,492,285)
Capital assets used in governmental activities are not financial resources and are not reported in the funds	10,620,980
Interest amounts on long-term liabilities are not payable until due in the funds	(60,075)
Pledges receivable are expected to be collected over several years and are not available to pay for current year expenditures	10,922
Compensated absences are not due and payable in the current period and are not reported in the funds	<u>(70,762)</u>
Net Assets of Governmental Activities	<u>\$ 6,120,697</u>

Canton Public Library

Notes to Financial Statements Year Ended December 31, 2005

Note 2 - Reconciliation of Government-wide and Fund Financial Statements (Continued)

The following is a reconciliation of the changes in fund balance on the modified accrual basis to the change in net assets on the full accrual basis:

Net Change in Fund Balances - Total Governmental Funds	\$ 274,436
Amounts reported for governmental activities in the statement of activities are different because:	
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	(606,635)
Pledges are recorded in the statement of activities when earned; they are not reported in the funds until collected or collectible within 60 days of year end. In the current year, more was collected than earned	(4,140)
Accumulated employee sick and vacation pay is recorded when earned in the statement of activities	(5,656)
Repayment of capital lease principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	307,715
The change in accrued interest expense is reported as an expenditure on the statement of activities but not in governmental funds	17,631
Governmental funds report proceeds from fixed asset disposals; in the statement of activities, losses on disposals are reported	<u>(5,230)</u>
Change in Net Assets of Governmental Activities	<u>\$ (21,879)</u>

Canton Public Library

Notes to Financial Statements Year Ended December 31, 2005

Note 3 - Cash

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Library has designated one bank for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of State statutory authority as listed above. The Library's deposits and investment policies are in accordance with statutory authority.

The Library's cash and investments are subject to several types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Library's deposits may not be returned to it. The Library does not have a deposit policy for custodial credit risk. At year end, the Library had \$1,454,904 of bank deposits (checking and savings accounts) that were uninsured and uncollateralized. The Library believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Library evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Canton Public Library

Notes to Financial Statements Year Ended December 31, 2005

Note 3 - Cash (Continued)

Credit Risk

State law limits investments in commercial paper to the top two ratings issued by nationally recognized statistical rating organizations. The Library has no investment policy that would further limit its investment choices. As of year end, the credit quality ratings of debt securities (other than the U. S. government) are as follows:

Investment Type	Fair Value	Rating	Rating Organization
Sweep account	\$ 413,422	Not rated	N/A

Note 4 - Capital Assets

Capital asset activity of the Library's governmental activities was as follows:

	Balance January 1, 2005	Additions	Disposals and Adjustments	Balance December 31, 2005
Capital assets not being depreciated - Land	\$ 67,500	\$ -	\$ -	\$ 67,500
Capital assets being depreciated:				
Building, fixtures, and improvements	9,550,944	17,113	-	9,568,057
Furniture and equipment	2,410,161	148,919	(21,974)	2,537,106
Books, periodicals, etc.	5,379,211	468,047	-	5,847,258
Subtotal	17,340,316	634,079	(21,974)	17,952,421
Accumulated depreciation:				
Building, fixtures, and improvements	1,645,749	194,158		1,839,907
Furniture and equipment	1,339,861	244,665	(16,744)	1,567,782
Books, periodicals, etc.	3,189,361	801,891	-	3,991,252
Subtotal	6,174,971	1,240,714	(16,744)	7,398,941
Net capital assets being depreciated	11,165,345	(606,635)	(5,230)	10,553,480
Net capital assets	\$ 11,232,845	\$ (606,635)	\$ (5,230)	\$ 10,620,980

Capital assets, including library books, are recorded at cost. Depreciation expense was \$1,240,714 for the year ended December 31, 2005.

Canton Public Library

Notes to Financial Statements Year Ended December 31, 2005

Note 5 - Long-term Debt

A summary of the debt outstanding of the Library at December 31, 2005 is as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Capital lease obligations:	3.500%- 5.200%	\$274,048- \$466,533	\$ 5,800,000	\$ -	\$ (307,715)	\$ 5,492,285	\$ 274,018
Other long-term obligations - Accumulated employee benefits			65,106	5,656	-	70,762	70,762
Total long-term obligations			<u>\$ 5,865,106</u>	<u>\$ 5,656</u>	<u>\$ (307,715)</u>	<u>\$ 5,563,047</u>	<u>\$ 344,780</u>

Capital Leases - The Library has a capital lease relating to its building at December 31, 2005. General obligation bonds were issued by the Canton Township Building Authority and are payable through 2020 for capital improvements of the building. Canton Township and the Library have entered into an agreement that calls for annual payments from the Library equal to the debt service requirements on the bonds. The future minimum lease obligations and the net present value are as follows:

Years Ending December 31	Minimum Lease Payments
2006	\$ 515,300
2007	501,425
2008	487,550
2009	523,675
2010	507,300
2011-2015	2,631,175
2016-2020	<u>2,579,200</u>
Total minimum lease payments	7,745,625
Less amount representing interest	<u>(2,253,340)</u>
Present value at December 31, 2005	<u><u>\$ 5,492,285</u></u>

Interest - Interest expense of the Library for the year ended December 31, 2005 approximated \$347,000.

Canton Public Library

Notes to Financial Statements Year Ended December 31, 2005

Note 6 - Risk Management

The Library is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Library has purchased commercial insurance for general liability, property, workers' compensation, health, and disability claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 7 - Defined Benefit Pension Plan

Plan Description - Canton Public Library participates in the Municipal Employees' Retirement System (the "System"), an agent multiple-employer defined benefit pension plan that covers all employees of the Library. The System provides retirement, disability, and death benefits to plan members and their beneficiaries. The Municipal Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the System. That report may be obtained by writing to the System at 1134 Municipal Way, Lansing, MI 48917.

Funding Policy - The obligation to contribute to and maintain the System for these full-time employees was established by the Canton Public Library's board and requires a contribution from the employees of 7 percent of gross wages.

Annual Pension Cost and Three-year Trend Information - For the year ended December 31, 2005, the Canton Public Library's annual pension cost of \$86,003 for the plan was equal to the Library's required and actual contribution. The fair market value of the plan's assets approximated \$1,505,000 at December 31, 2004. The Library began participation in the MERS plan on January 1, 2003. The 2004 annual required contribution was determined as part of the actuarial valuation as of December 31, 2003 using the entry age normal cost method. Significant actuarial assumptions used include (a) an 8 percent investment rate of return, (b) projected salary increases of 4.5 percent per year plus a percentage based on an age-related scale to reflect merit longevity and promotional salary increases, and (c) 2.5 percent per year cost of living adjustments. Both (a) and (b) include an inflation component of 4.5 percent. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on an open basis. The remaining amortization period is 30 years.

Canton Public Library

Notes to Financial Statements Year Ended December 31, 2005

Note 7 - Defined Benefit Pension Plan (Continued)

The following trend information includes only pension-related activity (assets, liabilities, and contributions related to health care have been excluded):

	Year Ended December 31	
	2004	2005
Annual pension costs (APC)	\$ 88,010	\$ 86,003
Percentage of APC contributed	100.0%	100.0%
Net pension obligation	None	None
		Actuarial Valuation as of December 31, 2004
Actuarial value of assets	\$ 1,542,116	
Actuarial accrued liability (AAL)	\$ 2,157,809	
Underfunded AAL (UAAL)	\$ 615,693	
Funded ratio (percentage)	71.5%	
Covered payroll	\$ 746,841	
UAAL as a percentage of covered payroll	82%	

Note 8 - Postemployment Benefits

The Library provides health care benefits to certain full-time employees, based on age and years of service, upon retirement in accordance with the Canton Public Library Retiree Medical Plan. There are no retirees currently eligible for benefits. The Library includes pre-Medicare retirees and their spouses in its insured health care plan, with no contributions required by the participants. The Library will reimburse not less than 50 percent of the cost of medical coverage. The Library purchases Medicare supplemental insurance for retirees eligible for Medicare. Expenditures for postemployment health care benefits are recognized as the insurance premiums become due. There were no postemployment benefits paid during the current year. During the year, the Library transferred net assets of the Fiduciary Fund to MERS Health Care Savings Program (HCSP). The HCSP is acting in a trust capacity to administer, invest, and manage the funds in order to provide for the funding of health benefit retirees. There was no actuarial valuation available as of the report date.

Canton Public Library

Notes to Financial Statements Year Ended December 31, 2005

Note 8 - Postemployment Benefits (Continued)

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending December 31, 2009.

Note 9 - Budget Information

The annual budget is prepared by the Library management and adopted by the Library board; subsequent amendments are approved by the Library board. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at December 31, 2005 has not been calculated. During the current year, the budget was amended in a legally permissible manner.

The budget has been prepared in accordance with generally accepted accounting principles. The budget statement (budgetary comparison schedule - General Fund) is presented on the same basis of accounting and level of detail as the adopted budget.

The budget has been adopted on a line-item basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. There were no unfavorable expenditure budget variances.